Testimony of

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Good morning. Chairman Duncan, Ranking Member Nadler, members of the Panel, my name is Leif Dormsjo, Deputy Secretary of the Maryland Department of Transportation (MDOT). Thank you for the opportunity to provide this testimony on behalf of the State of Maryland and speak about the utilization of Public Private Partnerships, or P3s, to help address Maryland's infrastructure needs.

I will outline how, combined with traditional federal and State funding sources, Maryland has successfully implemented P3s to accelerate the delivery of critically needed projects. I would like to emphasize that the benefits of P3s are not a substitute for traditional federal and State funding sources. P3s can be a valuable tool in the toolbox but must be viewed as a supplement to predictable and stable federal and State investments.

Marylanders suffer from some of the worst congestion nationwide. Combined, the highest priority transportation project in every Maryland County and Baltimore City would cost over $12 billion to construct. These challenging economic times call for new ways to do business. We realized that we needed to find innovative ways to make more effective and efficient use of public resources. Through P3 delivery of an enhanced Seagirt Marine Terminal, we have demonstrated that P3s can create greater overall value for the State. We are now taking the lessons learned from this project and applying them to a broader statewide, programmatic approach to P3 project delivery.

Seagirt Marine Terminal

Under Governor Martin O'Malley's leadership, we were able to complete the biggest port project in the State's history. On January 12, 2010, Maryland entered into a 50-year lease agreement with Ports America Chesapeake to construct and operate the Seagirt Marine Terminal at the Port of Baltimore.

For this P3, the Maryland Port Administration leased its 200-acre Seagirt Marine Terminal to Ports America Chesapeake. In return, Ports America constructed a 50-foot berth and agreed to make needed capital investment over the life of the lease, as well as taking responsibility for the terminal's operation. We estimated that 5,700 new jobs were created with 3,000 coming from constructing the 50-foot berth and from the resulting Maryland Transportation Authority highway projects. We expect 2,700 additional jobs will result from increased container business resulting from the Panama Canal project. From a State revenue perspective, it will generate about $15.7 million every year in additional tax revenue for Maryland.

The total investment and revenue from this agreement to the State of Maryland has the potential to reach more than $1.3 billion over the entire 50-year term. This includes an annual revenue stream of $3.2 million in fixed rent and an additional $15 per container above a 500,000 container threshold.

Seagirt was completed in 2012, two years ahead of schedule. As a result, Baltimore has now become the second port on the East Coast to have unrestricted access to both a fully functioning 50-foot channel and 50-foot berth. We are now prepared and well positioned to

receive the expected increase in the number and size of ships expected to travel to East Coast ports as a result of the Panama Canal expansion.
During the Seagirt P3 process, it became clear that communication and transparency was of utmost importance. In order to ensure a smooth and well-coordinated process, it was imperative to not only structure a transaction that would provide significant economic benefit to all parties, but to also keep key decision-makers apprised of any significant developments. Other characteristics that supported the success of the Seagirt P3 included:

- Well-defined objectives and evaluation criteria issued by MDOT at the beginning of the process. Clear goals demonstrate a commitment to proceed by the government.

- Reasonable expectations by both the public sector and private operator and a willingness to work together. It is important to have a mutual appreciation of risk sharing and long-term objectives.

- Commitment by the government and the private sector to the success of the project. The complimentary resources and skills of partners provide synergistic benefits.

- The agreement must be a win-win for the public and private sectors. Such alignment of interests establishes a relationship between the public and private sectors based on partnership, not confrontation. This provides the appropriate motivation to ensure that service quality is upheld to a high standard over the lifetime of the asset.

- The process should involve a well-coordinated reviews and approval process that enables timely closing. Throughout the process, it is important to make sure the goal line is clearly visible to all key stakeholders and decision-makers.

Applying Seagirt Lessons Learned to a Programmatic P3 Approach

MDOT is now applying the lessons learned from the Seagirt P3 to enhance its overall approach to P3 projects and processes. In addition to the P3 that is currently under construction for the two Travel Plazas on I-95, Governor O'Malley and Lieutenant Governor Anthony Brown recently announced that one of our New Starts projects, the Purple Line, will be Maryland's first transit P3 project. We are also evaluating elements of the Red Line in Baltimore City that may be appropriate for the P3 process.

Under the leadership of the O'Malley-Brown Administration, the Maryland General Assembly recently passed the State's Public-Private Partnership legislation, which took effect on July 1, 2013. The legislation provides the private sector with a stronger, more predictable, and streamlined process that balances risk and protects the State's interests. It draws upon the experience with Seagirt and provides a clear framework for delivery of future P3s.

Under the new P3 law and guided by new P3 regulations, MDOT is developing a more programmatic approach to identification, screening, and advancement of potential future transportation P3s. Over time, this will result in a substantial pipeline of future P3 projects across all transportation modes. Advancing P3s through this programmatic approach will expedite asset delivery and free up State dollars to be used for other critical projects. Over time, P3s across all of the State's infrastructure sectors could contribute between six percent and ten percent of Maryland's annual capital budget, creating as many as 4,000 jobs.

Transportation Infrastructure Investment Act of 2013

As much as we recognize the benefits of P3s, they cannot and should not be viewed as a substitute for traditional funding sources. There is a great deal of synergy between the P3 legislation and the Governor's Transportation Infrastructure Investment Act of 2013. Thanks to the leadership of the Governor, Lieutenant Governor, Maryland Senate President Miller, Maryland House Speaker Busch and members of the General Assembly, this Maryland Act is already starting to pay dividends.

This historic Transportation Investment Act will shape the future of transportation in Maryland and provides MDOT much-needed resources to seriously address the pent-up demand for transportation projects. With $4.4 billion in <u>new</u> funding that will make a real difference in Maryland's quality of life, we can now move projects that have already been studied, planned, and designed into the construction phase. The $4.4 billion in new funds will create an estimated 57,200 jobs and spark billions of dollars in economic activity.

Since the bill signing in May, Governor O'Malley and Lieutenant Governor Brown have held a series of public events to announce more than $3 billion of the $4.4 billion in new funding to advance priority projects throughout the State.

The additional benefit from the Transportation Investment Act is the spin-off effect it will have to support the economic engines for Maryland from Baltimore/Washington International (BWI) Thurgood Marshall Airport and the Port of Baltimore to our freight business. From improving our environment to making it easier to get to work and to move freight, the positive impacts of the new $4.4 billion in new projects over the next six years will be felt across the State.

Focus on Freight Mobility and Intermodal Connections

Although the focus of my testimony has centered on the importance of a variety of funding and financing options to build a multi-modal transportation network, I would also like to address the broader charge of this panel to address freight transportation. MDOT is a multimodal agency with a strong history of providing investment critical to efficient goods movement in the Washington/Baltimore metropolitan region, along multistate freight corridors including I-95 and the CSX National Gateway, and throughout Maryland, the United States, and the world.

MDOT is involved in everything from the management of our State-owned short line railroad serving the vital needs of agricultural customers on the Eastern Shore, to ensuring international cargo handled at the Port of Baltimore or BWI Thurgood Marshall Airport, moves efficiently along our rails and roadways.

We are fortunate that Maryland's State funding and organizational structure provide a flexible environment to plan and fund intermodal and freight mobility improvements. MDOT has a dedicated, mode-neutral funding source; the Transportation Trust Fund (TTF) is a pooled fund, supported by motor vehicle excise taxes and vehicle fees, fuel tax revenues and a portion of the State sales and corporate income taxes. None of these revenue streams are tied directly to a stove piped program or project. Using this flexible fund, we can and do apply State funding to intermodal passenger and freight projects.

Unfortunately, being the birthplace of rail in America has one disadvantage – our first-of-its kind infrastructure is now the oldest collection of tunnels, bridges and track. Located along colonial-era distribution pathways and built to 1870's standards, these facilities have significant capacity and clearance limitations that preclude access by industry-standard double-stacked containers to the Port of Baltimore. Addressing this impediment is a high priority for Maryland and the region. We are employing innovative mechanisms and partnerships and seeking federal funding to help remove these barriers.

In recent years, Congress has made significant investments aimed at supporting intermodal and freight projects through the United States Department of Transportation (USDOT) Transportation Investment Generating Economic Recovery (TIGER) program that gives states the ability to consider large-scale, big-ticket, and multi-modal projects.

A P3 related to the CSX Transportation's National Gateway Initiative was one of the earliest beneficiaries of the TIGER program, receiving $98 million in the first phase of the project using grant funding from the American Recovery and Reinvestment Act (ARRA). Although this grant did not extend the federal investment far enough to move freight from the Port of Baltimore or to serve domestic markets in the Baltimore-Washington region, the effort spurred public and private partners to work together in development of an intermodal facility in Baltimore.

Thanks to the support of our Congressional Delegation, Maryland was able to secure a TIGER V grant for $10 million in federal funding for the Port of Baltimore. Earlier this month, we were very pleased to welcome Vice President Biden, Senator Mikulski, Senator Cardin, and others to the Port of Baltimore to discuss its impact. The $29 million project will use dredged material from the Port's main access channel to create a 7.6-acre cargo staging area in a prime location near the vessel berth. Rail access will also be added at Fairfield to improve the Port's handling of autos and roll on/roll off equipment.

In addition to TIGER, the President's High-Speed and Intercity Passenger Rail (HSIPR) initiative provides indirect freight benefits by reducing highway and air congestion and through improvements to system reliability and safety. Under this program, Maryland received funding for three projects critical to the Northeast Corridor: the Baltimore and Potomac (B&P) Tunnel Preliminary Engineering and NEPA ($60 million); BWI Station Area Improvements PE and NEPA ($9.4 million); and the Susquehanna River Railroad Bridge Replacement PE and NEPA ($22 million). These projects will require significant future federal funds to construct.

MDOT also participates in farther-reaching regional coalitions such as the I-95 Corridor Coalition, the I-81 Corridor Coalition, and the Coalition of Northeastern Governors to tie our State efforts to a larger context and develop ideas to advance connectivity and mobility.

One product of these cooperative efforts was the Mid-Atlantic Rail Operations Study (MAROps) of the I-95 Corridor Coalition. MAROps recommended $12 billion in rail capacity improvement projects in a five-state region. When chokepoints are eliminated, increased rail capacity will stimulate growth and accommodate a major shift from long-haul trucking to more energy-efficient freight rail. The region could then realize an annual increase of $1.3 billion in business output and 9,800 more jobs. The MAROps study confirms the need for national support for major rail improvement projects, especially extremely complicated, multi-billion dollar projects including Baltimore's passenger and freight rail tunnels.

These investments benefit the regional and national economies as well as the environment. Further, investments can be made in areas where additional highway and bridge capacity is too expensive or right-of-way is no longer available.

While states and private freight companies can address many smaller projects on their own or with existing federal formula and loan programs, ongoing and permanent commitment from the federal government is necessary to initiate and complete major projects. We hope to obtain federal funding to help build solutions that will allow the East Coast to handle the tremendous growth in freight anticipated over the next few decades. These investments can also have multimodal benefits. In Maryland, the benefits of passenger or freight projects are often shared among intercity passenger, commuter, and freight rail.

Maryland and many other states are developing the necessary plans and preparations for future opportunities, and we encourage continued and increased federal support to further these efforts. Intermodal and freight connectivity projects must be part of the balanced, flexible and multimodal transportation system our nation needs to compete in a 21st century global economy.

Thank you for your attention to this important subject.